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Official Committee Hansard

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON TRANSPORT AND REGIONAL
SERVICES

**Reference: Commercial regional aviation services in Australia and alternative
transport links to major populated islands**

WEDNESDAY, 25 JUNE 2003

CANBERRA

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HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON TRANSPORT AND REGIONAL SERVICES

Wednesday, 25 June 2003

Members: Mr Neville (*Chair*), Mr Andren, Mr Gibbons, Mr Haase, Mrs Ley, Mr McArthur, Mr Mossfield, Ms O'Byrne, Mr Schultz and Mr Secker

Members in attendance: Mr Gibbons, Mr Haase, Mrs Ley, Mr McArthur, Ms O'Byrne, Mr Schultz

Terms of reference for the inquiry:

To inquire into and report on:

Commercial regional aviation services in Australia and alternative transport links to major populated islands.

WITNESSES

Carney, Mr Stephen James, Consultant/Adviser, Virgin Blue 719
Huttner, Mr David, Head of Communication and Strategy, Virgin Blue..... 719
Scanlon, Mr Phil, National Security Manager, Virgin Blue..... 719

Committee met at 9.33 a.m.

Carney, Mr Stephen James, Consultant/Adviser, Virgin Blue

Huttner, Mr David, Head of Communication and Strategy, Virgin Blue

Scanlon, Mr Phil, National Security Manager, Virgin Blue

ACTING CHAIR (Mr Gibbons)—I declare open this hearing of the House of Representatives Standing Committee on Transport and Regional Services. This is the thirteenth hearing that the committee has conducted since this inquiry began. We have previously held public hearings in Tasmania, Victoria, South Australia, New South Wales and Queensland as well as Canberra.

I welcome the representatives of Virgin Blue who are appearing before the committee today. Although the committee does not require you to give evidence under oath, I advise you that these hearings are formal proceedings of the parliament. Consequently, they warrant the same respect as proceedings of the House itself. It is customary to remind witnesses that giving false or misleading evidence is a serious matter and may be regarded as a contempt of the parliament. Would you like to make a brief five- to seven-minute statement about your position?

Mr Huttner—I oversee all matters of public communications, press relations and government relations. Appearing with me are Stephen Carney, who represents us in Canberra, and Phil Scanlon, who is our specialist on all matters relating to aviation security, customs, immigration and such matters. Phil will discuss certain matters where security interplays with regional airline interests in more detail. At that point, if it is appropriate and acceptable to you, we might ask that certain matters be discussed informally or off the record, but we will hold that off until the appropriate moment.

CHAIR—I apologise for being late; I have a busy day. I would like to welcome you, as the Acting Chair has done. He has cautioned you that these are proceedings of the parliament and need to be treated with the same respect. We are not going to place you under oath. I would like you to give us a five- to seven- minute overview of your submission, then we will break into questions from colleagues.

Mr Huttner—At the time the committee commenced its hearings, Virgin Blue really did not identify issues where we had significant overlap with the committee's interests. As we read and followed the committee's findings during the past six months, and as the situation developed both globally and here in Australia, it became more and more apparent that what is going on here impacts upon us and what we are doing certainly impacts upon regional aviation. We appreciate, although we are very late in the process, you allowing us to be here today.

Virgin Blue, as you know, is the second largest airline in Australia. We are very much not just a trunk route carrier. We have taken the step of trying to put jets into regional areas that did not have jets—large jets—until a few years ago. We now fly to Launceston, Coffs Harbour, Mackay and Alice Springs. We announced yesterday that our services between Adelaide and Broome have been extended to a year-round basis. We continue to look at other services into areas that traditionally were only getting turboprops or BAe146s—small jets.

We believe that, if you lower the fares enough, you can get more people to fly more often. It is as simple as that. You get more people to travel. We have numerous regional chambers of commerce and tourism authorities who will back up that comment and say that we have come good on our word in that regard. It is fair to say that we will continue to develop regional services; we have more announcements to come, with some due as early as this week.

We have also had to deal with a variety of things in terms of practices in the aviation industry—including predatory practices, which are in front of the ACCC—and also the use of, shall we say, bundling. The situation is not so different from that of Telstra; just as it impacts on regional telecommunications services and other services, it also impacts upon aviation. We have also had to deal with tying offers such as affordable air transport from A to B to other services such as lounges, travel management services and so forth. Clearly, we are concerned not just for ourselves but for other regional carriers such as Rex, Alliance and Skywest.

The use of wholly owned purchasing entities by any government agency ends up de facto steering traffic onto the carrier that owns their channel. It strikes us as being a bit of an unusual purchasing practice for a supplier to own and control the broker. All evidence—some of which is circumstantial but some of which is more clear—would suggest thus far that there is a pattern of pushing the mother company from Qantas Business Travel in this case. That impacts upon us in a sense with certain regional destinations. An example is Coffs Harbour, where we would like to look at more services. In that case the New South Wales state government, as much as some members of the Commonwealth government, use Qantas Business Travel. The reality is that government travel is a significant portion of services to regional areas and it does impact upon the decision of airlines to enter the market.

We are also planning on offering international services in the coming months. It is fair to say that we will certainly try to put in connections to some of the regional areas we fly to. We are looking at further regional areas. There are a number of areas such as Newcastle, Kalgoorlie, Mildura, Ayers Rock and other ports that we do not fly to yet or where we do not have the amount of service that we would like to have. We fly to Alice Springs just from Sydney, for example. That just started recently. Certainly, we see having services to more places.

On a more general level there are airports that we simply cannot get into. We have reached a regional agreement with Rex, Regional Express, to try to help them feed passengers to and from the beyond ports from where they fly. So now you can fly from Brisbane to Wagga Wagga with a joint service between Rex and Virgin. This is all part of our attempts to make sure that we offer the largest suite of services against the dominant player, Qantas.

It is fair to say that we believe we can fly into more regional areas also if the appropriate infrastructure is in place. The multitude of airports in close proximity is a sensitive issue in some regional areas. I can think of examples in Queensland, Tasmania and New South Wales where you have multiple airports in close proximity. If the service were concentrated in one airport, jet services would become more viable and low fares would become more viable. That oftentimes contradicts, shall we say, local sensitivities towards it. Locals say, 'It is a really great idea as long as it is not our airport.' Hopefully, market forces will drive the issue, but it is an issue.

More importantly, we are seeing a plethora of costs coming out. They are anything from airport charges to air services charges, security related charges—which we can go into more

detail about later—and various other levies. Luckily the Ansett levy was removed and we do appreciate that, we think it is really good. We have publicly committed to lowering all of our fares by \$10 return on the day that the levy is removed. We believe that there are a lot of charges. The way that user-pays is driven, it is inherently going to dramatically impact upon people in regional areas far more than it will upon on people in the major cities. It also impacts upon services. So at some stage, whether it is Coffs Harbour, Kalgoorlie, Rockhampton or one of a number of other places, people will simply choose to either drive or not travel at all.

It is not a question of us versus Qantas or us versus anybody else, it is a question of making flying affordable enough to keep people off the roads—where the social cost is far greater and the efficiency cost is greater—and making it possible for them to see more of the country. We started a Sydney-Canberra route recently and that is another area where we are still trying to push for more government travel. We know that the government has been trying to take steps in this measure. While we believe that more could be done, we are still very happy about the progress made thus far. We are also concerned about how we can address—like I said—the increasing costs of aviation security. We consider that security is paramount, as do all airlines, because if people do not believe flying is safe, they simply do not fly. How we go about it and the method of how the payment of it is structured is important not just for the aviation industry but for national security as a whole.

CHAIR—Thank you.

Ms O'BYRNE—I have just a couple of questions. I realise that you are going to further investigate the security implications in Canberra in a more private capacity. My understanding from your submission is that you do not accept that the industry should pay for it, but that that should be a government responsibility.

Mr Huttner—If you look at security in a port like Sydney, the security measures will cost a few dollars per passenger. But in a place like Launceston they will cost dramatically more dollars per passenger. The question you have to ask yourself is: is the threat really Launceston airport, or is it the airplane, or is it the tall building or is it that the plane could be used as a weapon against, say, the MCG? I am not saying we want to see anything like September 11 ever again. Society as a whole benefits from increased aviation security.

There is a lot of money being spent on patrolling the Timor Sea, for a variety of reasons, and fishermen are not paying for that in the tuna levy. You have to ultimately ask whether we want to choose 150 people on an aircraft to pay for the security of an entire city or an entire nation. That is the core basis of our assumption. You have defence and you have a police force. That is a social cost of having a safe society. At the end of the day, we believe that society as a whole has to provide for public security, not just the people who happen to be sitting in an aircraft. The airline industry has been facing security risks for as long as there has been an aviation industry—certainly the last 40 to 50 years.

It all changed on September 11 because it was not about the airplane anymore; it was about what happens in the bigger picture. We certainly want the highest level of security, but do we approach it on an airplane level or do we approach it on a national level? Bali was about a nightclub; it was not about an airplane. I am not denying the significance. Tomorrow, it could just as easily be a large truck on the Sydney Harbour Bridge, or someone in an underground

parking garage somewhere. We hope that day will never come, but we have to look at security on a national basis, not just in one particular environment.

Ms O'BYRNE—Thank you. We have heard quite a lot of submissions about the process of CASA's approvals. I am not sure that you suffered quite the issues that some other operators experienced, but I would like to hear your view on CASA approvals. You mentioned the cost structure and that you only fly 737s. Where do you see other cost reductions? Might they be in staffing levels? There have been some questions about the differences in pre-flight checks that occur between different airline companies. Could you touch on those?

Mr Huttner—Sure. First of all, on CASA, we have a good working relationship with CASA. It would not be unknown that we had a bit of bumpy start on the first day when we got going, but since then we have really tried to work with CASA. CASA has a job as a regulator to be very thorough. While it is normal that any airline probably has differences with their regulator—we certainly have a couple—sometimes the reality is that the overall working relationship is good. We believe that we will continue to work with CASA towards that goal. We also believe that there has to be a process in place and that decisions need to go through a certain process. So far we have been satisfied that the processes are working and we hope that they continue to work in a very positive fashion. We will continue, hopefully, to have an excellent relationship with CASA, as we have had in the past.

Ms O'BYRNE—The next issue related to cost reductions.

Mr Huttner—Virgin Blue keeps its fares low through a number of measures. We fly a lot of late night services; we fly the planes more hours a day. How do we do that? We do turn the airplanes faster. On the recent issues regarding safety checks, we are actually following Boeing and CASA guidelines. Certain unions at the time were dissatisfied with certain things that we were doing, but we believed that the issue really had to do with the fact that we were up on deck first, because they have other issues with the other major airline. By sending a warning shot across our bow, they were sending a clear signal.

It is fair to say that we are trying resolve those matters in a mutually acceptable way with the parties in question—the engineers association. We believe that we are getting closer to that goal. Nobody who is unbiased or who has not had their own agenda has indicated that there are safety issues there as described. A lot of the issues that were put out into the press were selectively represented and often misrepresented. We believe that we can turn the planes efficiently. We look at models all over the world and the highest standards in both Europe and the US in approaching that, as well as CASA and Boeing guidelines.

Ms O'BYRNE—The other issue relates to staffing cabin attendants. One of the announcements the minister committed to after the Launceston flight 1737, which I am very familiar with, was that there would be no reduction in staffing cabin attendants. I know that there had been quite a campaign in order to look at that in light of the New Zealand standards. Do you have a view on that?

Mr Huttner—We believe it is critical that one set of standards apply. Regarding the regulatory approach to both New Zealand and Australia, if you are merging New Zealand and Australian regulations and the use of AOCs, we have to be very careful that there are not two

sets of standards that apply on any particular flight within Australia. For example, our competitors are going to be using another New Zealand aviation certificate to fly across the Tasman. Well, that is accepted practice. There would be an issue of having two sets of standards for domestic flights here in Australia. I think we would be concerned if it ever achieved that stage.

CHAIR—Once that flight stops at Sydney—

Mr Huttner—If that flight stops at the international gateway, that is their prerogative, and there is a longstanding international precedent for that.

CHAIR—If it were to fly on to another capital city, you would expect it to be crewed at the level that applied in Australia?

Mr Huttner—It is not just crewing, it is the entire standards. Each country has different sets of fuel reserves. New Zealand does not have an air marshal ASO program.

Ms O'BYRNE—You could argue that we only have a very small one as well.

Mr Huttner—It is true. Whatever program you have, each country has decided on a set of standards. Some are better or worse in different areas, and I am not passing judgment as to which one they are. All we are saying is that, ultimately, for a passenger flying between, say, Sydney and Cairns—even if the flight comes through from another point—there is only one set of standards that Australians should expect. Someone has to say, 'This is the best way to operate.' Maybe the New Zealand standards might be safer on particular items, and maybe not. I am not here to say that they are or are not; I am certainly not an expert on those technical issues. But, whichever one it is, there should be one set of standards.

Mr GIBBONS—You said you had plans to go into some other regional centres. Would that result in buying additional aircraft to service those routes, if you were able to identify the market?

Mr Huttner—We have 10 more aircraft arriving in the next year. Some will be dedicated to international services, and some will be dedicated to domestic services of increasing frequency—connecting the dots, as we say. In other words, we might fly to points but fly to them from other points.

Mr GIBBONS—But they are all Boeing 737 aircraft.

Mr Huttner—They are all Boeing 737s.

Mr GIBBONS—Does that not limit you as to where you can fly in regional markets?

Mr Huttner—It definitely does. For example, Tamworth can take a 737. Sydney-Armidale, per passenger kilometre, is one of the most expensive runs in the country; and many other monopoly routes tend to be very expensive as well.

Mr GIBBONS—Could you explain why that is?

Mr Huttner—It is because the airlines get away with pricing it at that level. The competition is limited. For example, we could fly to Tamworth or Albury-Wodonga; those airports are 737 capable. But you have to pull in a large catchment area. The reality is that increased services to the Gold Coast airport have impacted on Ballina because, with the new highway that goes to northern New South Wales, people are saying, ‘Either I can fly in a turboprop from Ballina or I can fly in a jet from the Gold Coast.’ There are only so many people to divide the market, and they will say, ‘I’ll do this’ or ‘I’ll do that.’

If you look at regional areas in North Queensland, such as Mackay, Proserpine and perhaps soon Laguna Keys and Hamilton, you see that there are four airports in the same relatively small area. If we put our services down in one particular airport, you will see a draw from the neighbouring airports. That is the question: if you go to Tamworth, what will be the impact on Armidale; if you go to Armidale, what will be the impact on Tamworth? Ideally, it would be really nice if there were an airport halfway between the two councils that would serve the entire community, but it does not always work that way, for historical reasons. Economic forces will ultimately impact on those airports. That is a situation that is hard to address. With our pricing structure, our cost structure, we believe that, if there were a 737 capable runway, there are airports we could fly to where nobody has ever used big jets before. Coffs Harbour is a great example. If we flew into Coffs with jets, we could perhaps do the same thing tomorrow in Wagga Wagga.

Mr GIBBONS—There has been a lot of criticism of your operation that says that you are just cherry picking—flying the very lucrative routes but not making any contribution to infrastructure or development or bringing aviation services into regional Australia.

Mr Huttner—I don’t know—do you consider Coffs Harbour regional Australia?

Mr GIBBONS—Yes.

Mr Huttner—We did something no airline ever did.

Mr GIBBONS—A couple did but they went broke.

Mr Huttner—We think that ‘cherry picking’ is a rather unfair accusation. We flew to Townsville before we flew to Cairns. Cairns is the big fish up in North Queensland, but we flew to Townsville first. Why? Because people in Townsville were being ripped off—it is as simple as that—by both major carriers, who had a way of doing things that went for many years and was not going to work in the long run. We went to Townsville first and offered low fares to Townsville, and it changed the face of Townsville tourism, the region and what small business could afford to do. Until then, because of Defence, the Queensland government and a couple of people like QNI, Townsville was being ripped off. We changed that. We would fly tomorrow to somewhere like Wagga Wagga if we could have airport facilities there. We have already indicated that Wagga Wagga would be on our list of potential destinations if the facilities were available.

Virgin Blue follows what is known as the ‘Southwest model’. Look at Ryanair in Europe. Ryanair flies into very small airports in what many people would describe as very regional or rural areas. They draw people to those areas by low fares and affordable services. We are flying

Adelaide-Broome. Nobody ever flew Adelaide-Broome, and some people thought we were really stupid when we started flying it. There were a couple of people inside our company who probably thought that, too. As I said, we announced yesterday that Adelaide-Broome is a service that we are going to run year-round now, even during the wet season. If you make fares affordable, you can put big jets in where no such economics were viable before.

If we start flying a Noah's Ark type of fleet, which is a little bit of this and a little bit of that, we will end up like Ansett and like a lot of US carriers right now. By keeping one type of aircraft, we are efficient and affordable. We try to put in regional services wherever it is physically possible. That is why Alice Springs is a risk for us—it is 30,000 to 40,000 people, so it is a little bit below our target size. We are taking the risk because we hope that the tourism will offset it. But it is a bit of a risk to fly in these services without some of the distribution that Qantas has.

Mr GIBBONS—So there are no plans to review the purchase of aircraft, for example, the 717? I thought that would have been—

Mr Huttner—The 717 is not nearly as efficient as the 737 in terms of operational cost per sea kilometre.

Mr GIBBONS—But it is able to access smaller airports, isn't it?

Mr Huttner—Nominally. There are a lot of smaller aircraft that do this, and we have looked at it. Our primary goal is to stay in business, and remain viable and profitable. If we stay in business, we can keep doing this for a long time. We will only enter regional services when we believe we can add value. We do not really believe that we are experts in that; that is why we are happy to partner with a company such as Rex, which is what we have done recently. Rex can focus on their speciality, which is regional services in South Australia and New South Wales—

Mr GIBBONS—Will people be able to buy a single ticket, for example?

Mr Huttner—That is what Rex is now offering, and we are looking at further IT solutions to enhance that. People can buy a seat on Rex connecting to a Virgin Blue flight, and check their bags all the way through. So we are letting Rex do what they do best, which is running a regional turboprop operation, and we focus on what we know how to do, which is flying jets from A to B. For the same reason, we do not run a travel agency here in Canberra; it is not our job to run travel agencies, either.

CHAIR—Is the ticketing electronic?

Mr Huttner—One hundred per cent.

CHAIR—What about paper ticketing?

Mr Huttner—No. Paper ticketing is one of the ways we save money, because it is massively inefficient.

CHAIR—So there is electronic ticketing and seamless movement of luggage?

Mr Huttner—We are starting up a through-check baggage system. I think that will be on 21 July, if I am correct. It will be at the end of July, in any case.

CHAIR—So you can get on a plane in Mackay and get off in Adelaide, and not have to worry about—

Mr Huttner—We already have that. You could get on a plane in Mildura and go to Sydney; yes. That would be the example.

Mr McARTHUR—You would be aware of the two-airline policy argument that has existed in Australia over 20 years, and you would also be aware of Ansett's demise. You would also probably be aware of the argument that Qantas has put forward that Australia can only sustain one major airline, especially given the parlous state of international aviation, where most airlines are in some trouble. What is your response to the proposition that there ought to be one airline in Australia for a 20-million-person market?

Mr Huttner—Sydney to Melbourne is the third-largest route in the world. Take Dublin-London, which is about the fourth-largest or fifth-largest. There are about five airlines competing there. It certainly suits Qantas's purposes to make a statement like that, and we are well aware that that is their position. If I were trying to convince certain people of certain things, I would probably say the same thing. But it is fair to say that we believe that we are a major airline, too, and will soon become a much more major airline. The fact that we do not do through-check baggage to Boston does not make us any less of an airline.

We believe that we will become the choice of the majority of Australian travellers in the next five years. That might sound silly or farcical, but when we were at 10 per cent nobody really believed we were going to get to the 30 per cent we are at today. So we truly believe that we will become the major airline for domestic travel in Australia. Where we can reach with the 737—such as New Zealand, Singapore, Bali and other areas in the region; we might even expand beyond Singapore—we will continue to grow as well. It is fair to say that we will probably not fly to London. Our sister carrier, Virgin Atlantic, may come in from London some day—although we are an Australian company, Virgin Atlantic is a majority British owned company—but we will not be doing that in our own operation.

An airline can define itself as being a major airline in any way it chooses—by being part of an alliance, by saying, 'We give you lounge privileges in Frankfurt.' If you ask the people what they want, and not what airlines are programmed to think they want, you will find that the majority of people are not really concerned about some of those things that are nice and fluffy. They want affordable, good quality service from A to B. They want planes that run on time.

If an airline wants to be judged by a benchmark, we have asked the government on numerous occasions—and we continue to push for this—for on-time performance stats to be published, as they are published in Europe and the US. We do not want you regulating on-time performance. We are not saying the government should be interventionist. It is just a matter of increased transparency because what the public really wants—based on our customer feedback—is not through check baggage to Des Moines, Iowa or to Düsseldorf, but on-time performance from A to B, affordable fares and friendly service and safety and security.

We believe we can beat Qantas and become the 'major airline' in this market. We believe there is a two airline market easily. We came in when there were four airlines, so we were either probably a little crazy or we actually believed it was possible to compete even in the Ansett and Qantas environment. We had no idea the day we started what was going to happen to Ansett. We thought we would always be the No. 2 airline in the market at some stage, but we thought it would take five years.

It is fair to say that there is no reason why this country cannot support two major airlines, but you should not have a duopoly of Tweedledee and Tweedledum where you are offering the same flights, same service, same times a day, same questionable box lunches. If you put the Westin and the Hilton right next to each other on a city block, you are trying to divide the market, but you can say, 'Here is the Westin and here is the Holiday Inn' and some people want the Westin and some people say the Holiday Inn needs money. What is funny about the Holiday Inn all the time is that the service there is pretty friendly. You do not get the little chocolate on your pillow and the extra bottles of this and that in your bathroom, but you get friendly service. You get what people want which is a bed to stay in for the night and a comfortable, clean environment that is convenient to where you need to go for business. You find a lot more people there. The average Australian would probably stay at the Holiday Inn before, say, the Westin.

Mr McARTHUR—Would you care to comment on why you think Ansett came to its demise since you have taken their role as the No. 2 airline or No. 1 airline, depending on your future?

Mr Huttner—Hopefully No. 1 at some stage. Why did Ansett collapse? We could probably spend another few hours here. It is fair to say that, in a summary sense, there is no one reason why Ansett collapsed. There are a hundred little reasons that go way back to the days of Sir Peter Abeles. They go way back to the decisions that were made 10 or 15 years ago. Speaking to Bryan Grey from Compass, when Richard started the airline, and speaking to people who work for us and used to work for Ansett, it has been basically admitted that Ansett was down to its last few million dollars when Compass 1 went down. Some would say that write-offs and leg-ups given to Qantas at the time of the privatisation merger with TAA had a bit to do with it. There was the Defence contract, decisions about fleet, decisions by both the Australian and New Zealand governments during the whole kerfuffle with Singapore Airlines and the last issues. There were also numerous management decisions by many different shareholders at many points in their history.

Certainly, at the time Ansett stopped, we were at eight or nine per cent of the market. It would be hard to believe that we did that, although some people have conveniently suggested that. It is a bit of a death by a thousand cuts. Every little bit hurt and something finally pushed Ansett over the edge. Even when we turned down the Ansett offer about a week or two before their collapse, it was the assumption of the management team of Virgin Blue and of Richard Branson, who was in Australia at the time, that we had about two years to get our act together because Ansett would restructure itself, probably lay off a large number of people, and cut a lot of routes, including some regional air routes because they were not viable for Ansett's business model and their jets, but they would come back within two years leaner and meaner. So we had about two years to get our act together. We did not know at the time we turned down their offer that that was their only escape plan.

Mr McARTHUR—You would say that your model of the 737 aircraft being all the one type for increasing your market share is your recipe for success. You have that on the public record.

Mr Huttner—Yes. If you look around the world, about 10 or 15 airlines are profitable today—we are one of them and Qantas is one of them. It could be said that Qantas is in that position because it is still deriving certain benefits from the Ansett collapse, but Qantas is one of the few traditional airlines that are profitable. But the airlines that are following our model—be they in Brazil, Canada, Europe, the US, Malaysia, or in a number of other parts of the world—are consistently profitable. There are examples in each market—not all of them, because following our model does not guarantee you are going to make a profit—and the track record of the airlines that follow the Southwest model in some form or another has proven to be consistently profitable around the world.

In difficult economic times or difficult times, such as recently, for a variety of reasons—the war, and the economic downturn in Europe and the US—less leisure time is spent and there is less leisure travel. Big companies and governments cut their budgets, and government departments and companies say, ‘We still need to travel; we still need to hit our sales targets,’ and people do not use business class, the lounges, and all of those things, as much. We offer lounges on a user pays basis for people who want them, but we never make any person, who does not want to pay for it, pay for somebody else’s lounge or somebody else’s meal. Hopefully that helps.

Ms LEY—I am interested in your Canberra-Sydney route that I believe is opening up. Has it just opened up or is it about to open up?

Mr Huttner—Just a few weeks ago.

Ms LEY—You have described the typical Virgin customer and the typical Virgin market, which is low cost, low frills, where you get what you want in an easy, friendly and efficient fashion. I do not see that route particularly fitting into that model, given that those sorts of people would probably hop on a bus between Canberra and Sydney. It is obviously quite a challenging market and it is most particularly business people and public servants. I am interested in your strategy there.

Mr Huttner—Well over a quarter of our business nationally is for business people, as you described. We have contracts with over half of the nation’s top 100 corporations. There are big Collins Street and Sydney CBD names, as well as Perth and Adelaide names, that fly with us every day for large amounts of their business. It is not just Patrick Corporation, it is fair to say. Of the top 50 corporations in Australia, 26 or 27 at last count had contracts with us. I can guarantee you that Patrick is one of them; I can tell you that Qantas is not. The other 48 or so I am probably not at liberty to disclose, case by case, although some have been mentioned in the media.

We succeed in getting business travel because we run on-time performance, high frequency services, and a variety of things, but, at the end of the day, we run friendly, affordable travel to meet people’s needs. It is hard for us to make the Sydney-Canberra route work when the largest company in town does not buy us. That is a bit like the chicken and the egg, because you could say, ‘They don’t buy us because we do not have the frequency.’ But the Commonwealth

government also flies between Sydney and Melbourne, where we have 18 flights a day, and, while we have well over a quarter of the business market, including the major corporate business market on that route, we have probably only a handful—probably less than one per cent—of the federal government travel budget spent on the Sydney-Melbourne route.

The problem is, if the Sydney-Melbourne route were working, we would feel really wonderful and would put more services into Canberra, but it is not working because the purchasing mechanism is inherently flawed. We are working towards changing it. But we believe—and I was on the flight—

Ms LEY—Could you tell me what you mean by ‘the purchasing mechanism is inherently flawed’?

Mr Huttner—The purchasing mechanism is that the best fare on the day is not being enforced. The No. 1 purchaser for the Commonwealth government is a company known as Qantas Business Travel, which is theoretically an unbiased broker of services. Good purchasing practice should say: that should not exist. If the government were to buy software tomorrow, they would not appoint Microsoft Consulting to tell them which software to buy, and if the government were to buy a mainframe computer, it probably would not ask IBM Consulting what their views were either. But, for some reason—for historical reasons and otherwise—we seem to believe it is okay to say, ‘Qantas Business Travel will get us a fair deal.’

I was on the flight this morning from Sydney—there were loads of suits on the flight—but I looked up the accounts before I flew this morning. I can tell you that there was very little government traffic. We are offering fares right now at \$49. We are almost doing that to prove a point. I can tell you that even next month, heads up, in advance, we are going to be offering extremely low, fully flexible fares, far below our competition’s fares—not just 10 per cent or 20 per cent below—

Ms LEY—Are you talking about Sydney-Canberra or are you talking Canberra—

Mr Huttner—Sydney-Canberra. We are going to do that to prove a point—it does not matter what fare we put in because the best fare on the day is not being enforced. We are going to give it a try. We can see in our system if the government accounts are purchasing. If they are not, some people could say, ‘We don’t know when we’re going to come back.’ With respect to members of parliament, who have very busy schedules, we are probably not targeting your business, but we are actually targeting the business of a lot of individuals in the government who are decent, hard working folks who know they have a meeting to go to in the morning and they want to come back in the evening. They do not have schedules that change throughout the day. But even if they do, we will sell the fully flexible fares at a much lower price than the other guys. Even if they know their return flight might change, they know they are going to leave on the seven or eight o’clock in the morning flight, so their travel agent should be doing its job as a travel agent, which is to get them the best value. So we think we can offer more services to Canberra.

There are a lot of other people who do Sydney-Canberra, and a lot of those people drove. What we are seeing now, and the target we are hitting to make up for the fact that we are not getting much Commonwealth government travel, is people who otherwise simply did not fly. If

you are coming to lobby and you do not work for an organisation with a big budget, usually you hopped in the car at 6 a.m., drove by the airport, hit the road and you were here by nine or 9.30. Those people are quite happy with the option and we are seeing a lot of them. But on the Sydney-Melbourne route, every single day we are carrying corporations that you will read about in the *Fin Review* today. So I would question whether our product is not for business travel. Although it is a simplified service, we probably do not agree with the 'no frills' moniker. We believe that we offer what people want, including big businesses.

Mr SCHULTZ—I have sympathy for you with regard to the monopoly that Qantas has with government. Having said that, what have you done in terms of marketing your company with the government departments themselves or with the government? What have you offered by way of evidence that would indicate to the appropriate people in the departments that you can offer a far better, cheaper deal, which really is going to be a relief for the taxpayer, not so much for the government? I always have a problem with that issue—the way we spend our taxpayers' dollars. Finally, you might like to comment on this: I have been in a situation where I have flown with Qantas and at very short notice I have been told that the flight has been cancelled—obviously because they do not have enough passengers. I have sat on my backside in airports for up to two hours. I believe they do this because we are a captive market—because of longstanding tradition we will not move away from them even though there are those inconveniences. I totally agree with you with regard to your concern about Qantas having a monopoly, but how are you going to convince government and government departments that they have to use your service? What are you giving them in terms of packages? Have you done any of that?

Mr Carney—In the last six or nine months there has been extensive lobbying of government and departments. There have been repeated meetings with the minister for transport, the minister for finance and others. Senator Abetz, the Special Minister of State, has written to all ministers reminding them of the government policy of best value for money and urging greater use of the smaller airlines. Generally, Virgin is not mentioned by name as a small airline, but certainly the others are mentioned—Rex et cetera. We have also held meetings with the secretaries of the department of transport, the department of finance and others. In the last couple of days the department of finance has issued another Commonwealth procurement circular entitled 'Reasonable access for smaller airlines to the government business travel market'. In the old days, of course, department of finance circulars were treated as tablets of stone handed down. They do not have quite that influence these days.

Mr SCHULTZ—Those pieces of paper are just pieces of paper. There has to be a directive from our end to tell people they have to use them. That is why I am asking you what sort of outcome you are getting from the government and the government departments.

Mr Carney—We are getting different outcomes from different government departments. The other day there was another cluster contract awarded which involved the Australian Taxation Office and the department of health, I think—\$60 million worth of travel. It was awarded to Qantas and Qantas Business Travel. They offered a discount provided they got no less than 90 per cent of the \$60 million. So the size of the discount expressed as a percentage of the rack rate for Qantas might have looked very attractive, but it was 20 per cent off what number? They offered no discount unless they got \$54 million worth of the travel, leaving \$6 million to be divided among the other players. Even the decision on where that \$6 million went was to be made by Qantas Business Travel.

Ms LEY—Would that \$49 fare be your regular Sydney-Canberra fare?

Mr Huttner—That is the walk-up fare—that is a test of the market to get entry fare.

Ms LEY—What would be your rack rate?

Mr Huttner—The rack rate will still be about 30 per cent below what the other guys do on the fully flexible walk-up fare. On average it will be 30 per cent to 40 per cent below.

Mr SCHULTZ—For which you get what?

Mr Huttner—You get a ticket that is fully changeable and you can fly when you want to, and if you want to cancel an hour before, you can.

Mr SCHULTZ—And you get a cheap flight as opposed to a—

Mr Huttner—Yes, and we do not give you a meal—a box lunch. Not that anyone is greatly disappointed not to get a box lunch—but we will sell you one. We have lounges—we are opening lounges in the major airports across the country but you will pay \$5 to get in or you will buy an annual membership for a lot less than Qantas is charging everybody except government employees.

It is a little like our advertising agency—they want us to pay them a media spend, and the more money you spend the more you will save. I know that other people have that philosophy, but if you bundle the services and say that 90 per cent of your business with any department is tied up with this, what happens is that neither us nor Rex nor United Airlines can possibly compete unless we go to great lengths to put together some package deal and get a huge amount—and I do not know if that would be collusion—on the same routes, but certainly there is a lot of coordination between independent companies that really have nothing to do with each other.

It is like saying that if Telstra can provide your long lines then they should provide your household services too. Everyone is really happy that Optus came into the market because all of a sudden Telstra lowered the rates, but if you do not support the party that is bringing in the lower rates then it is an issue. Qantas has set up a very simple scenario by keeping certain fares high with the rack rates and then saying, 'We're giving you a great discount.' But our average fare is lower than that.

We have asked the government to look at fares paid by the Commonwealth government last year on the Sydney-Melbourne route where we have high frequency refundable fares. These are things that are good enough for the private sector—major corporations—who probably have very rigid purchasing policies similar to what the Commonwealth government has. If you ask Shell Corporation or other corporations that fly with us what their purchasing policy is, and look at the tenets that it operates by, it is probably not a lot different from government purchasing policy on certain standards. Yet we get a very different outcome from one group than the other group.

We would like to look at what the average fare paid by the government last year on the Sydney-Melbourne route was—all taxpayers' money—for employees. We do not fly business class. To be quite honest, if we do not get your individual business because on certain days you want access to the lounge in business class and we do not have that facility, we are not complaining about that because we are not trying to meet the needs of every single member. A lot of members of parliament do fly with us and we are very happy to have them on board, but they are just as important to us as every other passenger.

We do not have a set-up to cater to a small group in a really different way from anybody else. You get what you pay for and that is the way this service operates. But a lot of government employees could travel with us affordably, and if we audited last year's numbers, I think you would find that our everyday fares are cheaper than the discount off that high rack rate that is being offered on the Sydney-Melbourne route. If you want to change that purchasing policy elsewhere, do it, but, as you said, there is no incentive—the fox is guarding the henhouse right now.

Mr SCHULTZ—There is also the hurdle to get over in terms of the comfort zone that is offered to people in the services that Qantas gives. I make that comment for what it is worth.

Mr Huttner—For a certain group, there is.

Mr SCHULTZ—Hopefully we are not going to be in a situation where we are trying to coach government department heads to instruct their people to use an airline such as yours in an environment where they are getting perks like doctors get from pharmaceutical companies. I am playing the devil's advocate here. I hope I am wrong, but I am always suspicious of why, when an edict goes out from somebody up here, the line managers at another level do not take that sort of advice when it is going to be significantly less costly to their shareholders—in this case the taxpayers of Australia.

Mr Huttner—My wife is in the pharmaceutical industry and I know exactly what you are saying and I would not disagree with some of the suggestions you are making. It is fair to say that there is a tremendous issue of purchasing policy enforcement. Although the goodwill may be there at certain levels, the actual outcome is very different.

Another great example is post Bali, which was a really tragic and difficult time. We felt it was our obligation to do our share. We called Centrelink at the time—because they were looking after the families, moving them to hospitals in Darwin, Perth and wherever they were going—and we said, 'We'll give you seats for \$25 or \$50.' I do not remember the exact figure. We called Centrelink and said, 'Tell us what you need. We'll get any seat we have available. We'll move people to wherever. We're happy to do our bit.' At the time, we did not make a noise about this because it was not the time to really do that. It was a time of tragedy and we did not want to make a fuss, but we basically got the answer, 'Qantas handles our travel.'

CHAIR—You're joking!

Mr Huttner—We were told that Centrelink travel is handled by Qantas. We were virtually willing to give seats away.

CHAIR—In that circumstance?

Mr Huttner—In that circumstance, and we could not get through the bureaucracy. We called a few different people in Centrelink. We tried to call people, but after about a week we gave up. We just said that it was too hard. As a senior manager of the company, I personally made four or five key phone calls to senior officers in Centrelink saying, ‘How can we do this? Can we help?’ It was not to get us PR, and this is why we did not make a noise about it afterwards. We did not try to get up on Qantas; we just thought, ‘Everyone’s got to do their bit on this one.’ We do not fly to Bali, so we could not help out in Bali. We know that Qantas did get a significant amount of money from Centrelink for those flights to move families around. They were looked after. I am not saying that Qantas did not do it with good intentions as well, and I believe they did, but we were willing to do our bit there at virtually no cost—basically fixed cost only—and we could not get a foot in the door.

It was an unfortunate, tragic incident, but it sticks in my mind as an example that, no matter what we do, it is stacked against us. If the tenders go out like the ATO tender that went out recently, the package is bundled in such a way that it will always reach the outcome that is obvious—in other words, if you say, ‘We need an airline that provides business travel services, business class, lounges and economy class,’ well, congratulations, you have got your winner. But if you say, ‘We want somebody to bid for economy class services, somebody to bid for business class services, somebody to bid for travel management services and somebody to bid for whatever,’ if you break up the constituent parts, you might get a very different outcome.

Mr Carney—Just by way of information: on that particular cluster of \$60 million, between 15 and 16 per cent of that is business class travel. To summarise what David was saying, we think really only those things that are contestable should be contested—and that is the air bit—and to fancy up a bid by offering discount hire car services, hotel deals or free seats to the tennis—

CHAIR—Like the old deal when Ford, Holden and Valiant used to go to the councils for their cars. Some offered airconditioning and some offered velour seats—

Mr Carney—Ansett and Qantas were offering packages.

CHAIR—but all you really wanted was a basic car for the council.

Mr Carney—Also, some SES officer contracts include an entitlement to business class travel.

CHAIR—Mr Haase has been waiting to ask a question.

Mr HAASE—You have covered a lot of ground and I have been very interested in the answers given to many of the questions, but I have an interest in what you have in mind for Exmouth. You have mentioned Broome, and thank goodness you have seen the light in that regard. You have got Kalgoorlie on your radar; I know about that. Have you looked at Exmouth? If you haven’t, why haven’t you? If you have, what are your findings that you can share with me at this stage?

Mr Huttner—It is fair to say that Exmouth is a great example of a place where there is—

Mr HAASE—Do you know where it is?

Mr Huttner—The aviation facility is Learmonth airport. There is a question of accommodation and beds at Exmouth. We have been invited to meet with the Exmouth council and we plan on going in the coming months. It is a tough call. If you think Broome was tough; Exmouth is tougher. We are also looking at identifying whether we get a greater range on South-East Asian services when Exmouth is the last point of departure. In other words, does Exmouth, on a technical stop basis, open up something that we could not reach from Perth or Darwin? The aircraft operations people are doing that. So, if we can reach Bangkok or Kuala Lumpur, for example, from Exmouth but we could not reach those places from Perth then the economics of it would change a bit. There is a core problem of bed space. You can build a service and people want to fly there but, at the end of the day, there may be no place for them to sleep.

This is an issue at Ayres Rock. At Ayers Rock a lot of the beds are tied up by Qantas holidays. We fly to Alice Springs. That meets the needs of the backpackers and budget travellers and others. A lot of people who go to Ayers Rock travel to Alice. It is a little bit tougher at Ayers Rock. We are looking seriously at Exmouth. It is what I would describe as one of those long shots. There are a few others around. I do not say it is a long shot in any negative way: it is a tough economic decision to have a jet with 144 people and put it into that market. There are a few others like that—one in South Australia, one or two in New South Wales and one in Victoria. We are looking at these opportunities individually.

Mr HAASE—Are you aware that the marina development is going in at Exmouth?

Mr Huttner—Right, and that certainly is part of the reason that we are going to take a look—because that may start to tip the scales a bit.

Mr HAASE—I hope so. There is a desperate need for capacity building in the airline service that is offered to Exmouth. I will turn to another issue. How do the charges for air services in Australia's airports impact on Virgin Blue?

Mr Huttner—They impact upon us dramatically, just like any other thing—the Ansett levy, security costs et cetera. The costs of air services are going up at a much greater rate than the rate of inflation and we are not quite sure why, to be quite honest. Along with the Board of Airline Representatives, we are meeting the head of Airservices this afternoon. We are severely concerned. There is a lot of noise in the press: how could Airservices raise its rates now with SARS and the global situation? But we are more concerned about why Airservices is raising its rates in general. Throughout the world air services are becoming more efficient. The reality is that although Australia has some of the safest services in the world, it is not subject to anywhere near the levels of pressure. The load here is relatively light for jet services compared to air traffic in Europe or the US. We think they do an excellent job but we question whether they are managing not just for safety but also for efficiency.

We think a balance can be achieved that meets the safety needs and has efficiency. You cannot just keep raising the rates because you are a monopoly—whether you are an airport or Airservices. The issue we have with Sydney Airport is well established and we have this issue with Airservices—and there are others as well. In regional ports you find that the air service costs are amortised over fewer and fewer people. For example, a decision was made a few years

ago to make sure that fire services at airports were stand alone. In many communities the fire service could be combined with community fire services and become much more efficient in terms of offering a service to the community and to the airport. That approach was because of decisions made a couple of years ago, but the reality is that in regional areas as places get smaller the same costs are amortised over fewer and fewer passengers. In a place like Kalgoorlie, at some stage people just drive—or they do not go. It is not a question of paying for the cost of the service. You can create all these wonderful things for the regional community and you may be improving safety—some people even question the safety return in certain cases; you have to hope that safety is improving—but there is a balance that we are sometimes failing to achieving. And that is impacting disproportionately on regional areas.

Mr HAASE—Would you please comment on the arbitrary nature of the rulings by Airservices? At one stage anything with fewer than 350,000 movements per annum did not need the service; now the criteria have changed to 300,000 movements per annum or an international service. Would you comment on how the value of that safety facility changes with 50,000 movements per annum? Can that be justified? Would you comment on what we hear anecdotally—that on-ground fire services in the history of aviation in Australia have not saved one life?

Mr Huttner—We are worried about a variety of things when it comes to aircraft—weight, number of passengers, and movements. There seem to be these cut-offs that are contrived for reasons that have nothing to do with the actual aviation outcome, sometimes. There are a variety of examples of this—I am probably not going to get into each one. I understand why some of them are made and some of them I do not understand why they are made, but they have been done. Recently, we have brought in affordable fares to the Sunshine Coast—to Maroochydore airport. We have brought in so many people that Maroochydore airport now requires a fire service. That implies that everyone who was flying to Maroochydore, up until now, has not had one.

Statistical evidence suggests—not on an Australian basis but on a global basis—that the majority of aviation incidents do not actually happen on the airfield and often incidents that do happen on the airfields have outcomes that can be improved. For example, if you know that you cannot get your wheels down, you have to put foam down the runway. Those things are foreseeable.

CHAIR—By that, do you mean that the local fire service in the town could get out there in sufficient time and put out fires?

Mr Huttner—There are examples. I know the member for the region where Devonport lies, and Devonport has knocked down fences, as a regional airport. The town fire service can be trained to deal with aviation matters. Rockhampton has international aviation standards, because Singapore airlines flies into Rockhampton for a few days of the year. Theoretically, they would have to be present at the airport. Now you could call the town service out, knowing full well that the plane was coming in from Singapore on that particular occasion. It is fair to say that in many communities you could provide what was needed by having a service that jointly met the needs of the airport and the town—you could even place it on the airport property, around airport grounds, but giving it a role of community responsibility as well, so that it could be there on standby, making better use of the time and training of the individuals by investing in both the

traditional firefighting training and airport specific procedures, because aviation firefighting is a specialty that needs to be trained for.

There are many examples around the world where that exists—where a town and its airport share fire services—and there are many examples around the world where fire services personnel also happen to work in the airport at check-in desks or in the air cargo facilities or as the gardener or the grounds keeper or whatever. The nature of air services—being an isolated monopoly and providing a service—makes those solutions difficult at regional airports. It goes against the grain of what industry standards are around the world, but not in terms of whether you would train your grounds keeper, who is also a firefighter, to be any less of a firefighter than anybody who works as a full-time firefighter. No. The reality is that that person can work as a groundskeeper, and in some airports where you have maybe five or 10 major jet movements a day that person can even be standing by the truck at the time the aircraft lands and still do another job or fulfil another function in the airport efficiently.

Mr Scanlon—That is in the process now on the security level. At category 1 and 2 airports, we have Australian Protective Services for counter-terrorist first response, whereas in regional ports we have no policing whatsoever at airports, and it comes down to the local, state or territory authorities to look after the policing or the security as such. So they now do it in a manner that is suitable to all parties. I cannot see it being any different in relation to firefighting. For safety and security reasons, ideally, they would all be compatible.

Mr HAASE—It has struck me that there are a great number of industrial aspects to the maintenance of those services.

Mr SCHULTZ—Demarcation lines.

Mr HAASE—It strikes me that it is simply another cost impediment to regional airlines.

Mr SCHULTZ—Absolutely.

Mr HAASE—And it seems totally inflexible, and why there is that degree of inflexibility is beyond understanding—and why that degree of power and dominance is given to that tiny group of employees, who provide a service that is questionable and demanded on a mandatory basis that bears no resemblance to valuing equally the life of one person per annum versus 300,001 people per annum. It is just beyond comprehension.

Mr Huttner—We are not going to question the value of the service. Obviously, we believe it is being done with good intentions. Whether it is being done with good intentions or because of other agendas—and we agree there is that possibility as well—there are certainly better ways to do it than the way we are doing it today. That is our view. I think what Phil said about security is true. We started flying to Coffs Harbour. Because we put a jet into Coffs Harbour, which is a benefit to the people of Coffs Harbour, Coffs Harbour's security risk is now heightened. We are not sure if that is because all of a sudden al-Qaeda has moved to Coffs Harbour, but we do question whether you can set the standards in a way that says, 'It's great that we have a jet service here, and by the way we have just raised the cost of air travel by \$5 or \$10 a passenger every time you fly.' There are a lot of pensioners and other retirees in Coffs Harbour who fly with us, and that comes out of their pockets. It is as simple as that. Is Coffs Harbour under

greater security threat than it was under before we put a jet in there? Did it change suddenly? You could say, once again, that that jet could be used better than a turbo prop for certain evil purposes. That is the case, but then it comes back to whether we are looking after aviation or the community as a whole, which is the point we were discussing earlier.

CHAIR—On that note, I think we should bring this hearing to a close. I would like to thank Mr Huttner, Mr Scanlon and Mr Carney, who is as well known here as Bushells tea. Thank you for coming and giving us that evidence. We trust we may come back to you if we require any further information.

Mr Huttner—At any time.

Resolved (on motion by **Mr McArthur**):

That this committee authorises publication of the evidence given before it at public hearing this day.

Committee adjourned at 10.38 a.m.